

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

ACDA-07 /112 W

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R 200635Z SEP 76

FM AMEMBASSY ANKARA

TO SECSTATE WASHDC 4938

INFO AMEMBASSY TEHRAN

USINT BAGHDAD

AMEMBASSY TRIPOLI

AMEMBASSY TEL AVIV

USMISSION OECD PARIS

AMCONSUL ISTANBUL

AMCONSUL IZMIR

AMCONSUL ADANA

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E.O. 11652: N/A

TAGS: EFIN, ENRG, TU

SUBJECT: FINANCING DIFFICULTIES FOR TURKEY'S GROWING CRUDE PETROLEUM
IMPORTS

REF: (A) ISTANBUL 3485, (B) ANKARA 6981

1. TURKISH IMPORT OF CRUDE PETROLEUM IN FIRST SIX MONTHS OF
1976 HAS RISEN 25PERCENT IN VOLUME AND 30 PERCENT
IN VALUE OVER SIMILAR PERIOD IN 1975. IN LIGHT OF CRITICAL
BALANCE OF PAYMENTS SITUATION, TURKS HAVE BEEN TRYING TO
LENGTHEN AND IMPROVE PAYMENT TERMS TO MAIN SUPPLIERS,
IRAQ AND LIBYA. TURKEY HAS SUCCEEDED (AT LEAST WITH
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LIBYA) IN GETTING MINOR PRICE REDUCTIONS OF 3 TO 4 PER-

CENT AND TERMS OF 90 DAYS ARE GIVEN BY BOTH IRAQ AND LIBYA. RECENTLY, HOWEVER, CONTROVERSY OVER BANK GUARANTEE WITH LIBYA HAS SLOWED DOWN OIL SHIPMENTS FROM LIBYA TO IPRAS (IZMIT) TURKISH PETROLEUM CORPORATION (TPAO) REFINERY CAUSING SHORTAGES OF POL IN SOME AREAS OF THE COUNTRY. ATTEMPTS TO LENGTHEN TERMS OF PAYMENTS TO IRAQ HAVE LED TO NEGOTIATIONS BETWEEN TPAO AND WELLS FARGO BANK WHERE BANK IS CONSIDERING RAISING \$100 MILLION ON ACCEPTANCE CREDIT BASIS FOR TPAO PURCHASES OF IRAQI CRUDE.

2. TURKISH LOCAL PRODUCTION OF CRUDE HAS BEEN DROPPING (FROM 3.5 MILLION TONS IN 1973 TO 3.07 MILLION TONS IN 1975). IMPORTS OF CRUDE - POL IN 1975 (TURKEY HAS ADEQUATE REFINING CAPACITY AND IMPORTS AND EXPORTS OF POL MORE OR LESS BALANCE EACH OTHER) DROPPED TO 9.5 MILLION TONS FROM 11.1 MILLION TONS IN 1974, BUT COST ROSE FROM \$763 MILLION IN 1974 TO (811 MILLION IN 1975. IN THE FIRST SIX MONTHS OF 1976, HOWEVER, IMPORTS ROSE 25. PERCENT OVER FIRST SIX MONTHS OF 1975 TO 5.4 MILLIONS TONS, AND "0#PERCENT IN VALUE TO \$449 MILLION DOLLARS.

3. DURING 1975, TURKEY OBTAINED 73 PERCENT OF ITS CRUDE IMPORTS FROM IRAQ, 15 PERCENT FROM LIBYA AND REMAINDER FROM SAUDI ARABIA, EGYPT AND OTHER COUNTRIES. DURING FIRST SIX MONTHS OF 1975, TURKEY HAS IMPORTED 56 PERCENT OF ITS CRUDE FROM IRAQ, 28 PERCENT FROM LIBYA, 10 PERCENT FROM IRAN AND BALANCE FROM OTHER COUNTRIES. REASON FOR INCREASE IN IMPORTS FROM LIBYA IS PROBABLY RELATED TO CLOSURE OF IRAQI PIPELINE TO BANIAS WHICH AT LEAST TEMPORARILY SLOWED DOWN TURKISH IMPORTS OF IRAQI CRUDE EARLIER IN 1976 AND REPORTED AGREEMENT BY GOT TO BUY 6 MILLION TONS OF LIBYA CRUDE DURING 1976. IRANIAN CRUDE IMPORTED IN 1976 HAS BEEN ALMOST EXCLUSIVELY FOR IPRAS REFINERY AND ACCOUNTED FOR ABOUT 20 PERCENT OF IPRAS CAPACITY. WE HAVE HEARD FROM A GOOD SOURCE THAT IRANIAN PERTROLEUM IS IN FACT CRUDE SHIPPED FROM IRAN TO ISRAEL AND TRANSHIPPED TO IPRAS FROM HAIFA.

4. WITH SCHEDULED COMPLETION OF KIRKUK-DORTYOL CRUDE PIPELINE IN JANUARY-FEBRUARY 1977, TURKEY'S IMPORTS FROM IRAQ WILL RISE CONSIDERABLY. UNDER THE TERMS OF THE TURKEY-IRAQ PIPELINE
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AGREEMENT, TURKEY AGREED TO PURCHASE TEN MILLION TONS PER YEAR FROM 1977-79, 12 MILLION TONS PER YEAR FROM 1980-1982 AND 14 MILLION TONS PER YEAR AFTER 1983. THE GOT ESTIMATES THE PROJECTED DIFFERENCE BETWEEN ITS DOMESTIC CRUDE DEMAND AND PRODUCTION AS 12.5 MILLION TONS IN 1976 AND 21.2 MILLION TONS IN 1980.

5. SINCE INCREASED OIL IMPORTS (20 PERCENT OF TOTAL IMPORTS)

HAVE MEANT ADDED PRESSURE ON THE TURKISH BALANCE OF PAYMENTS, THE GOT IS ATTEMPTING TO IMPROVE PURCHASE TERMS OF CRUDE IT PURCHASES FROM LIBYA, IRAQ AND OTHER OPEC COUNTRIES. DATA IS DIFFICULT TO OBTAIN IN THIS SENSITIVE AREA, BUT WE UNDERSTAND THAT LIBYA AND IRAQ HAVE GIVEN TURKEY MINOR PRICE CUTS AND 90 DAY CREDIT TERMS. RECENTLY, HOWEVER, THERE HAVE BEEN REPORTED PROBLEMS WITH LIBYANS OVER THE QUESTION OF A BANK GUARANTEE. IN THE PAST TURKISH BANKS HAVE PUT UP THE BANK GUARANTEE, BUT FOR RECENT 400,000 TON PURCHASE, LIBYANS ARE REPORTEDLY ASKING FOR \$65 MILLION GUARANTEE BY A FOREIGN BANK. THE TURKS ARE RESISTING LIBYA PRESSURE ON THIS. IN THE INTERIM, LIBYA SEEMS TO HAVE SLOWED SHIPMENTS OF CRUDE TO THE IPRAS REFINERY.

6. TPAO HAS BEEN DISCUSSING WITH WELLS FARGO, CITICORP AND OTHER BANKS ACCEPTANCE CREDIT OF \$100 MILLION ON 180 DAY TERMS TO FINANCE IMPORTS OF IRAQI CRUDE. TURKEY HAS MADE LITTLE USE OF ACCEPTANCE CREDIT IN THE PAST TO FINANCE HIGH-PRIORITY COMMODITY IMPORTS. IN FACT, TURKISH REGULATIONS REPORTEDLY SPECIFICALLY EXCLUDE USE OF ACCEPTANCE CREDIT TO FINANCE IMPORTS OF CRUDE AND COKE. HOWEVER, TPAO AND MINISTRY OF FINANCE ARE NOW READY TO CONSIDER CHANGES IN REGULATIONS TO OBTAIN ADDITIONAL SHORT-TERM CAPITAL INFLOWS.

7. COMMENT: EMBOFF WAS RECENTLY ADVISED BY SENIOR TPAO OFFICIAL THAT CONTINUING PROBLEMS WITH LIBYAN SUPPLY MIGHT CREATE SHORTAGES OF CRUDE AND FORCE TURKEY TO IMPORT FUEL OIL THIS WINTER. TURKEY WILL PROBABLY HAVE TO MEET LIBYA TERMS FOR FOREIGN BANK GUARANTEE, HOWEVER, AND CRUDE WILL CONTINUE FLOWING. ALSO, PURCHASES OF IRANIAN CRUDE HAVE FURTHER DIVERSIFIED TURKISH SOURCES OF SUPPLY AND PROVIDE ADDITIONAL ALTERNATE SOURCE TO LIBYA AND IRAQ.

BANKERS NEGOTIATING WITH GOT FOR \$100 MILLION ACCEPTANCE CREDIT
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REPORT THAT CHANGE IN GOT REGULATIONS COULD HAVE FAVORABLE, BENEFICIAL IMPACT ON SHORT-TERM TURKISH BALANCES OF PAYMENTS PICTURE. BANKERS REPORT THAT ACTIVE GOT USE OF ACCEPTANCE CREDITS COULD BRING IN AS MUCH AS \$500 MILLION IN NEXT YEAR OR TWO TO FINANCE TURKISH IMPORTS OF CRUDE AND POSSIBLY COKE. AMERICAN BANKS IN TURN WOULD HAVE MINISTRY OF FINANCE GUARANTEE OF REPAYMENT IN FOREIGN EXCHANGE. ASSUMPTION HERE, OF COURSE, IS THAT GOT COMMODITY IMPORTS HAVE PRIORITY OVER ALL OTHER CIVILIAN SECTOR IMPORTS AND THAT EVEN IF FOREIGN EXCHANGE STRINGENCIES SHOULD FORCE GOT TO DRASTICALLY CUT IMPORTS, VIRTUALLY LAST IMPORT CUT WOULD BE CRUDE PETROLEUM.
FRANCIS

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, IMPORTS, PETROLEUM, BALANCE OF PAYMENTS, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ANKARA07182
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760354-0899
From: ANKARA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760943/aaaabkme.tel
Line Count: 167
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 ISTANBUL 3485, 76 ANKARA 6981
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2004 by CollinP0>; APPROVED <13 AUG 2004 by BoyleJA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINANCING DIFFICULTIES FOR TURKEY'S GROWING CRUDE PETROLEUM IMPORTS
TAGS: EFIN, ENRG, TU
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006